

In the Matter of the Application )  
regarding the Conversion and )  
Acquisition of Control of Premera Blue )  
Cross and its Affiliates. )  
 ) No. G 02-45

PUBLIC HEARING  
BEFORE INSURANCE COMMISSIONER KREIDLER  
December 2, 2003  
at  
West Coast Ridpath Hotel  
515 West Sprague  
Spokane, Washington

Taken Before:  
SUE E. GARCIA, CCR, RPR  
Certified Court Reporter  
of  
CAPITOL PACIFIC REPORTING, INC.  
2401 Bristol Court S.W.  
Olympia, WA 98502  
360.352.2054  
e-mail: capitol@callatg.com  
www.capitolpacificreporter.com

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P R O C E E D I N G S

(6:11 p.m., December 2, 2003)

COMMISSIONER KREIDLER: Welcome. I'm Insurance Commissioner Mike Kreidler. And thank you for attending this hearing regarding the conversion of Premera from a nonprofit to a for-profit company that is OIC case number G 02-45. The purpose of this hearing is to take testimony from the public regarding Premera's proposal to convert from a for-profit -- to a for-profit insurance company. At this time I would like to introduce the parties. Sitting over --

SPEAKER: I'm sorry. But I can't hear you.

COMMISSIONER KREIDLER: You can't hear. Thank you for the admonition. I need that. By the way, I'm using a pen from the North Spokane Rotary Club to make sure that I'm quoting the correct lists and forms.

Over to my right here representing Premera we have John Domeika -- maybe, John, you could just raise your hand -- who is the senior vice president and legal counsel, and also joining him is Tom Wolfendale, also with Premera. I would like to also recognize that sitting in the audience is the CEO of Premera Blue Cross, Gubby Barlow, right there in the back.

Representing the Office of the Insurance Commissioner's staff review team is Deputy Commissioner of Company

1 Supervision Jim Odiorne. And representing the third party  
2 intervenors is Nancy Isserlis.

3 Also here tonight with us is Assistant Attorney General  
4 Christine Beusch, who is assigned counsel to my office, and  
5 my counsel; Christina, to my right. And also here we've Sue  
6 Garcia, who is the court reporter, who is over here typing  
7 away and taking the minutes of this meeting.

8 Out front or actually standing at the door right now  
9 we've Scott Schoengarth, and also Bill Ripple, who are the  
10 OIC public affairs.

11 Now, I want to give you a brief update of where we are  
12 in the process of reviewing Premera's application, then I  
13 want to talk about the procedures for tonight's hearing.

14 On September -- in September 2002, Premera made its  
15 initial filing, called a Form A filing, asking for approval  
16 to convert from a nonprofit health insurance business to a  
17 for-profit company. If the conversion is approved, the  
18 for-profit company would only be owned by stockholders and  
19 publicly traded.

20 As part of the proposed transaction, the value of  
21 Premera would be made available to a foundation or similar  
22 organization to fund health needs of the public. While many  
23 laws apply though this transaction, the primary law is the  
24 Holding Company Act, RCW 48.31B and C, which applies to  
25 health service contractors, such as Premera Blue Cross.

1           In early 2001, I asked the legislature for clear  
2           authority to review this -- to review this kind of  
3           transaction, and the legislation was adopted later in 2001.  
4           Without this important law, a change in Premera's operations,  
5           such as conversion, may not have been subject to the kind of  
6           scrutiny and review it is being given today. I would use the  
7           procedures and criteria laid out in the Holding Company Act  
8           to review and ultimately render a decision on Premera's  
9           proposal.

10           Although more than a year has passed since Premera's  
11           initial filing, there's been much activity and progress.  
12           Public forums were held throughout the state in the fall of  
13           2002 to hear the concerns of the public. In fact, one was  
14           held right here. Premera submitted additional documentation  
15           since its initial Form A filing. Staff of the Office of the  
16           Insurance Commissioner, with the assistance of outside  
17           experts, has reviewed tens of thousand of documents relating  
18           to Premera's business and proposed conversion.

19           The Washington State Medical Association, the Washington  
20           State Hospital Association, the Premera Watch Coalition, and  
21           others were granted third-party intervenor status by me and  
22           have been actively taking part in these proceedings. Parties  
23           have submitted expert reports, which are available on the  
24           Office of the Insurance Commissioner's website, which is  
25           www.insurance.wa.gov. In fact, there are some limited copies

1 of the executive summaries of those reports available for any  
2 of you who would like to take a look at those documents  
3 tonight.

4 There are 17 different reports from a variety of experts  
5 ranging from accountants, tax consultants, investment  
6 bankers, lawyers, and health-policy consultants. The OIC  
7 website contains all of the hearing documents filed by the  
8 parties, and the 20 orders I have issued to date.

9 All of this activity and sharing of information has  
10 generated a considerable amount of attention in the media,  
11 particularly newspapers. Contrary to some of these reports,  
12 this case is still in the information gathering stages. I  
13 have not received recommendations from my staff, and I  
14 will -- won't be taking any decision -- making any decision  
15 until the proper time.

16 In the meantime, my review of Premera's proposal is  
17 being conducted as part of an adjudicative hearing in  
18 accordance with the state Administrative Procedures Act.  
19 This means that this proceeding is somewhat like a trial,  
20 although, let me assure you, much less formal. I am serving  
21 as the judge in this matter and will issue a decision after  
22 all of the evidence has been submitted. The parties in these  
23 proceedings are the OIC staff review team, Premera Blue  
24 Cross, and the intervenors who have demonstrated a  
25 significant interest in the proposed conversion.

1           Beginning in January 15, 2004, a hearing will be held  
2           in Tacoma, at which time these parties will offer their  
3           evidence through documents and testimony. This hearing will  
4           last up to two weeks. Times, location, and other details of  
5           this hearing are posted on the OIC website. In addition, I'm  
6           reaching out to the public by holding four public testimony  
7           hearings throughout the state like this one to hear your  
8           views about the proposed conversion.

9           Tonight is your opportunity to provide testimony that  
10          will be evidence for me to consider in deciding whether to  
11          approve or disapprove Premera's application to convert.  
12          Because the testimony being taken tonight will be evidence in  
13          the adjudicative hearing, everyone who testifies must do so  
14          under oath. Therefore, prior to taking testimony, I will ask  
15          everyone who intends to testify to raise their hands to be  
16          sworn.

17          Please, please, don't let this formality deter you from  
18          testifying. You are free to express your opinions, you don't  
19          need to be worried about the fine points of law or proving  
20          your opinions with facts and data. I shall consider your  
21          testimony as your recommendation to me.

22          Because this hearing is part of the adjudicative  
23          hearing, the parties or the attorneys could ask you a  
24          question about your testimony in order to follow up or elicit  
25          additional facts. But -- but I want to add this: I am

1 asking the parties the -- to this conversion to seriously  
2 show restraint tonight as they will have ample opportunity to  
3 present their case during the adjudicative hearing next  
4 month.

5 After all of the testimony remarks are made here  
6 tonight -- and they will be recorded by our court reporter,  
7 Sue Garcia, over here to my left -- the transcript of this  
8 hearing will be part of the record of this case. It will  
9 also be posted on the OIC website as soon as it is available.

10 Again, though through -- though we must follow certain  
11 required procedures for this hearing in order to comply with  
12 the Administrative Procedures Act, I want to stress that this  
13 hearing is informal. Maybe intimidating, but informal. This  
14 is an opportunity to provide me with opinions on Premera's  
15 proposed conversion, your experiences with Premera and with  
16 health insurance in the state, and any other information you  
17 believe would be relevant to my decision in this matter.

18 Once everybody is sworn in, I will call three names of  
19 people at a time. The first person will come to the table,  
20 and the two others will take seats behind the table over here  
21 to my far left and then proceed to offer their testimony.

22 If we -- if we find that after we've gone through the  
23 list of individuals who have signed up to testify that some  
24 others have been moved to want to offer testimony, I would  
25 ask them to step outside and approach either Scott or Bill



1 over here so that they could sign their name in. And when  
2 you come up to testify, I will swear you in at that point.

3 When you do testify, I would ask this of you: Please  
4 state your name slowly and perhaps spell your name for the  
5 court reporter so that we make sure that we get it accurate.  
6 And also if you'd be kind enough to state your -- the town or  
7 city that you live in. And I should emphasize this because  
8 many people may want to testify during this two hour -- the  
9 two hours that are available to us. Your testimony should be  
10 direct and succinct as much as reasonably possible so that  
11 everybody has an opportunity to offer their comments.

12 At this time I would like to proceed in the process here  
13 online for swearing in those who wish to testify. For  
14 everyone who wishes to testify, I would ask you to please  
15 raise your right-hand at this time.

16  
17 CATHY LOBDELL, PAUL QUAM,  
DOROTHY DETLOR, JIM WATTS,  
18 ROBERT HARTMAN, BRUCE CUTTER,  
DEB HARPER, SANDRA HUGGINS,  
19 JOHN WHITE, JOE SIEMENS,  
JUDITH PERALA, MIKE WILTERMOOD,  
20 TERRY LUDING, TOM WESTBROOK,  
KAREN HYVONEN, JIM DUNN,  
21 PAUL BRAMSMAN, JEAN HUDSON,  
LINDA KOBE-SMITH, CHRIS MARR,  
22 DOUG WILLIAMS, ELLIOT FABRIC,  
LLYOD GUTHRIE, GLEN STREAM,  
23 ELIZABETH PETERSON, CARY BUSH,  
BRIAN MCALPIN, PATRICE PENDELL,  
24 MARGARET KLUBBEN,

25 having been first duly sworn,  
testified as follows:

1                   COMMISSIONER KREIDLER: Thank you. Now, let us  
2 begin. And I'm going to call the first three names on the  
3 list. And the first three names that I have here would be  
4 Cathy Lobdell, Paul Quam, and Dorothy Detlore.

5                   Cathy, you can go first. And again, if you -- state  
6 your name carefully for the court reporter and then your city  
7 or town that you live in.

8                   MS. LOBDELL: I can't hear you. I'm sorry.

9                   COMMISSIONER KREIDLER: If you'd be kind enough to  
10 state the city and town in which you live in and state your  
11 name for the court reporter.

12                   MS. LOBDELL: I gave it to her when I first walked  
13 up.

14                   COMMISSIONER KREIDLER: Just go ahead and say it.

15                   MS. LOBDELL: Okay. Fine. My name is Cathy  
16 Lobdell, and I'm --

17                                   (Interruption by reporter to ask for  
18 microphone adjustment.)  
19

20                   MS. LOBDELL: So naturally I am against this  
21 proposal that Premera wants to do because I don't feel that  
22 it is going to be for the good of the poor. Because any time  
23 you go for-profit, it always hurts the poor.

24                   Now, I have a lot of people that I know that their  
25 premiums will be raised, and they will no longer be able to

1       afford to have it. So that's -- and all of articles I've  
2       read in the paper and all the articles that have been in our  
3       Chronicle, our local newspaper, have been definitely against  
4       this, not only in this state, but other states as well.

5               So that's my biggest objection to it. Because any time  
6       you go over -- an insurance company goes for-profit, they  
7       always raise their rates. And certainly, our people can't  
8       afford that. So that's my biggest objection to this. Okay?

9               COMMISSIONER KREIDLER: Thank you very much.

10              MS. LOBDELL: Thank you very much.

11              COMMISSIONER KREIDLER: Paul Quam.

12              MR. QUAM: I'm glad I wasn't first. My name is  
13       Paul Quam, Q-u-a-m. I live in Spokane.

14              Just very briefly, who gains the most from having  
15       medical insurance? Middle income families? Wealthy  
16       families? Or as this lady just mentioned, those that are in  
17       the low to very low income brackets?

18              I pay \$340 a month for Blue Cross. When I was employed,  
19       of course, my employer said, "Well, you can pay it. You made  
20       a lot of money." When I retired, I still had to pay that  
21       amount, so I just dropped it. And then a year later, when I  
22       became 65, I had other insurance. My feelings on this -- of  
23       going public is: When you do that, you answer to the God  
24       Almighty shareholders. And they are very demanding.

25              Thank you.

1 COMMISSIONER KREIDLER: Thank you very much.

2 MS. DETLOR: My name is Dorothy Detlor, and I'm  
3 from Spokane. Thank you very much for the opportunity to  
4 present my perspectives tonight. I am the dean of the  
5 Intercollegiate College of Nursing and Washington State  
6 University College of Nursing.

7 I would like to say up front that, although I've been  
8 heard and been involved in many discussions related to the  
9 pros and cons of the proposed conversion, I'm not qualified  
10 to offer my opinion as to the merits of either side of the  
11 discussion, nor do I intend to do so.

12 I would, however, like to address a related issue. I  
13 understand that if such a conversion were to occur and  
14 Premera is permitted to go public, significant dollars will  
15 be available under the established foundations, which could  
16 be used to address unmet healthcare needs in our region.  
17 This, therefore, is the focus of my comments.

18 Currently there are significant health care needs across  
19 the state that are not currently being met by public or  
20 private funding, so I would like to speak very briefly to two  
21 of these areas in which I'm intimately involved.

22 The first of these areas relates to the nursing  
23 shortage, of which I know all of you are quite aware. You  
24 may or may not realize that nurses are the backbone of our  
25 healthcare system. You may also not be aware of the high

1 level of education that is needed to prepare nurses to care  
2 for acutely ill patients and manage the complex technology  
3 that we see today in our healthcare facilities.

4 Research by Aiken and others published in September 2003  
5 in the journal of the American Medical Association documents  
6 that there is a direct correlation between the educational  
7 level of nurses and the survival of patients after surgery.  
8 Specifically, and I quote, "In hospitals with higher  
9 proportions of nurses educated at the baccalaureate level or  
10 higher, surgical patients experience lower mortality and  
11 failure-to-rescue rates."

12 We also know that with aging population and the  
13 expanding use of technology, this nursing shortage is going  
14 to escalate in the years ahead if we don't proactively  
15 address the related issues. The Washington Nursing  
16 Leadership Council, comprised of the leaders of all of the  
17 nursing organizations in this state, has developed and is  
18 working with others to develop a statewide strategic plan to  
19 address the situation.

20 However, closer to home, my college of nursing, the  
21 largest in the state, currently is unable to accept  
22 two-thirds of the qualified applicants to our baccalaureate  
23 nursing program. We are turning away highly qualified,  
24 motivated potential nurses, students with grade point  
25 averages of 3.7, 3.8 because there're not adequate state

1       dollars or sufficient faculty to support their education.

2       It's very expensive to educate nursing students in the health  
3       sciences or students in all of the health sciences, about  
4       \$3,000 per year per student.

5               Thus, we have to limit our involvement despite the fact  
6       that most of our students have six job offers before they  
7       finish their program of study and are offered excellent  
8       salaries, some of sign-on bonuses of up to \$20,000. These  
9       factors are directly related to the desperate need for our  
10      graduates knowledge and skills.

11             Almost more serious than the nursing shortage, however,  
12      is the faculty shortage. This is becoming a critical  
13      situation across the country. And it is an outcome of the  
14      lack of funds to support master's and doctoral education for  
15      nurse educators. Obviously, without faculty, students can't  
16      be taught. If a foundation is established as an outcome of  
17      Premera's conversion, some of the available funds could make  
18      a significant aspect on this aspect of the healthcare system  
19      across our state.

20             The other areas area that I see an extremely acute need  
21      is in the care of low-income and homeless populations of our  
22      communities, individuals and families who are underinsured or  
23      have no healthcare insurance. Part of the mission of  
24      Washington State University as a land grant institution is to  
25      care for the citizens of our communities. My college

1 operates and staffs several clinics that focus on the  
2 population, including the People's Clinic and the Ronald  
3 McDonald Care Mobile. These clinics have a combined  
4 operating budget of over \$1 million a year supported by  
5 grants, foundations, and private donations.

6 Just this morning the practitioner that directs our  
7 clinic services told me of two typical clients whom she has  
8 seen recently. One of these individuals was a woman in her  
9 late 40s who was laid off from her job six months ago and now  
10 has no insurance and no income, but is in great need of care.

11 The other client, in her early 50s, came to the clinic  
12 where she was diagnosed with breast cancer. She had never  
13 had any preventative care and no mammograms or other types of  
14 testing. What few funds she had available she used to try to  
15 address the healthcare needs of the other members of her  
16 family.

17 More than half the clients we see in our clinics come to  
18 us with no health coverage, a situation that is seen by many  
19 clinics and emergency departments. Premera has already  
20 contributed significantly to the operations of our health  
21 services. And funds from a large foundation, again, could  
22 make a significant impact on efforts such as these,  
23 ultimately positively impacting many residents of our state.

24 In conclusion, as I mentioned at the beginning, I am not  
25 in a position to comment on the merits or the nonmerits of

1 the conversion. What I do want to emphasize is that there  
2 are significant unmet healthcare needs across our state and  
3 region that are not currently being addressed and which would  
4 greatly benefit from the establishment of a target  
5 philanthropic approach, such as is proposed. Thank you.

6 COMMISSIONER KREIDLER: Thank you. Let me call on  
7 the next three individuals.

8 And I might ask that while applause is appreciated,  
9 because this is a quasi-judicial type of hearing, it's  
10 probably not appropriate. So I would appreciate it if you  
11 would just show a little bit of restraint in that regard.

12 Rob Trytko, Bruce Cutter, and Jim Watts, if you would be  
13 kind enough to come forward.

14 DR. WATTS: Jim Watts, W-a-t-t-s, Spokane,  
15 Washington. Good evening. Thanks for letting me speak for a  
16 few moments here.

17 I have a different view than many in this room in the  
18 fact that I am solidly behind the board of directors and  
19 management of Premera to convert to a for-profit company. I  
20 am a physician and former board member of Medical Service  
21 Corporation from 1993 to 1998 when MSC realized that they did  
22 not have the capital necessary to compete in the future. At  
23 that point in time there were 115 independent Blue Cross Blue  
24 Shield organizations, and I think that number has now dropped  
25 to 38 nonprofit and profit -- 4 companies are for-profit.



1           The pace of change in healthcare has increased  
2           dramatically in recent years, and the future promises more of  
3           the same. My feeling is that the board, current board  
4           directors and management, has come to the same conclusion as  
5           we did at MSC between 1993 and 1998 that they need a dramatic  
6           increase of capital to maintain their independence and better  
7           serve the needs of the patients and the physician and the  
8           hospitals.

9           The conversion will not reduce consumer access to  
10          healthcare. It will maintain access or even improve it by  
11          being independent and committed to the Pacific Northwest.  
12          This will be a positive thing for the State of Washington,  
13          Oregon, and Alaska. The company is run by a board of  
14          directors from this -- from the various communities they  
15          serve. These are businessmen and physicians who are  
16          committed to the Pacific Northwest. I think this commitment  
17          to the Northwest will ensure the best possible medical care  
18          for the region and benefit the hospitals, the consumers, and  
19          the physicians.

20          The physician hospitals will benefit because it will  
21          have capital available to improve the operational efficiency  
22          over the long run. Just today, I've got two articles the  
23          for-profit Signa and Aetna talking about web enhancement and  
24          better features as a better way to serve physicians and stuff  
25          like this. And without the capital necessary to compete with

1 the for-profit Signas, Aetnas, United, Anthem, without the  
2 capital available, they're not going to be able to better  
3 serve the Pacific Northwest.

4 The players are getting bigger and the Premera needs the  
5 capital to compete. Being a nonprofit is no advantage, and  
6 it will likely lessen the ability to remain -- maintain their  
7 independence over time. When it comes to raising capital,  
8 being a nonprofit is a disadvantage. The capital needed to  
9 compete for these nonprofits is not available to Premera.  
10 This lack of capital in the long run will hurt the  
11 physicians, the consumers, the hospitals.

12 I am sure the board of directors and management have  
13 done their due diligence and come to the same conclusion that  
14 conversion to a for-profit is in the best interests of those  
15 of the Pacific Northwest and the region they serve. These  
16 individuals, as I said earlier, are the business and medical  
17 leaders from the local communities, and they are committed to  
18 what is best for this region. They're not operating out of  
19 New York or some other area. They want to do what's best for  
20 us, the hospitals, and the consumers.

21 The state has already known for its antibusiness  
22 situation with other businesses is well known. I think this  
23 would worsen the situation if the state interferes with a  
24 company to do what is best to compete with the national  
25 for-profit organizations. What is the long -- what is the

1 short-term politically correct or best is not what's best in  
2 the long run. I think you have to look at the long-term  
3 situation, what is best for Premera to keep them independent  
4 and keep them doing what is best for all the consumers, the  
5 physicians, and hospitals.

6 Let Premera go for-profit and it will ensure its  
7 independence and what is best for us in the region they  
8 serve. It is a win for the state through a company that is  
9 independent, supporting the local employment and tax base.  
10 As a physician and consumer, I ask you to allow the  
11 conversion to go forward. Thank you.

12 COMMISSIONER KREIDLER: Thank you. Rod Trytko.

13 DR. HARTMAN: If you don't mind, I'm going to step  
14 up. I'm Dr. Robert Hartman. I've practiced obstetrics and  
15 gynecology in Spokane County for the last 20 years and still  
16 do. And I'm currently the president of the Spokane County  
17 Medical Society.

18 Premera's request for conversion to for-profit status in  
19 Washington is opposed by the Spokane County Medical Society.  
20 We believe that the additional errors, expense, money paid to  
21 stockholders, and executive salaries will result in fewer  
22 dollars to the healthcare of Washington citizens. If this  
23 conversion is allowed to go forward, we would expect  
24 increased premiums.

25 As a business owner myself, as many of you feel the same

1 way, I'm finding our employee healthcare premiums increasing  
2 approximately 30 percent for this next year again. Like many  
3 business owners, I'm looking for more accountability from all  
4 parties, including our patients, ourselves as physicians, and  
5 the companies providing healthcare coverage. Many businesses  
6 report they can't afford further increases. I believe this  
7 will predictably result in fewer covered services and few  
8 citizens with healthcare coverage in Washington.

9 From the physicians' point of view, we would anticipate  
10 lower reimbursement rates in our region, a region that is  
11 already suffering from inability to recruit new physicians  
12 due to low reimbursements resulting in inability to reach  
13 other localities for new physicians. This would be, in our  
14 view, one more nail in the coffin of excellent healthcare in  
15 Eastern Washington, currently the number one industry in  
16 Spokane, which is already stressed by the challenging economy  
17 and soaring liability insurance rates.

18 Should the conversion to for-profit status be approved,  
19 we would anticipate even more of we already have experienced,  
20 increased numbers of denials for valid claims, decreased  
21 physician reimbursements from the downstream, social and  
22 economic hinderances, more barriers to payment claims and in  
23 a fair and timely manner, and finally, provider contracts  
24 that are even more unfavorable than these we currently  
25 tolerate.

1           As you know, in some states where these conversions have  
2       been allowed, reimbursements have fallen up to 10 percent.  
3       That would be a mortal blow for the healthcare industry in  
4       Eastern Washington where Premera already has great market  
5       power. I believe my group experience is typical in that they  
6       represent 60 percent of the nongovernmental contracts from my  
7       medical group.

8           Premera sought this conversion under the guise of  
9       improving healthcare coverage in Washington. In our mind,  
10      the case has not been made, the increase capitalization does  
11      not translate to better access by virtue of any arguments  
12      offered by Premera. Thank you.

13           COMMISSIONER KREIDLER: Thank you. Bruce Cutter.  
14      And let me call off the next three names here as Mr. Cutter  
15      comes up, Dr. Deb Harper, Sandra Huggins, and John White.  
16      Please.

17           DR. CUTTER: Thank you. Bruce Cutter, C-u-t-t-e-r,  
18      Spokane, Washington. Thank you for allowing me to come in  
19      this evening. I'm a physician in Spokane. And I would like  
20      to provide some commentary to this, some support, but some  
21      concerns as well as.

22           The reality is that Premera is a business. Premera  
23      needs to grow if they're going to be maintaining the -- a  
24      viable business long term, just like my practice needs to  
25      grow, just like any of our businesses need to grow.

1 Businesses need to grow and businesses need capital to grow.  
2 So the question becomes: How does one obtain that capital?  
3 And I don't actually have a real problem with accessing the  
4 equity markets to be able to get that capital.

5 Having said that, I would also raise a cautionary note  
6 and a concern, that what are you going to do with that growth  
7 and how are you going to grow. Because there is going to be  
8 pressure to grow. In fact, there's pressure to grow now.  
9 And there's going to be more pressure to grow in the future.  
10 And how is that going to be managed? Is that pressure to  
11 grow going to be done on the backs of the physicians and  
12 hospitals in this community, as an example?

13 As Dr. Hartman noted, we are already suffering from an  
14 inability to recruited physicians to this region, that  
15 inability is real and is a concern. So there's caution.  
16 Thank you.

17 COMMISSIONER KREIDLER: Thank you very much. And  
18 Deb Harper. And following Deborah Harper, Sandra Huggins and  
19 then John White. Please.

20 DR. HARPER: Thank you for coming to Spokane,  
21 Commissioner Kreidler, and opening this process up. I'm Deb  
22 Harper. I'm a pediatrician here in Spokane. I've lived here  
23 since 1985.

24 And I would like to ask you, please, to not allow  
25 Premera to go for-profit. I know that you and your staff has

1       spent a lot of time and have consulted with experts about  
2       insurance conversions in other communities, and you know  
3       about the negative effects that have occurred in many of  
4       these communities.

5               Premera believes that their conversion will be different  
6       because they're going to make some small changes in their  
7       conversion process. Spokane is not the place to allow this  
8       experiment. Premera commands the vast majority of the  
9       commercial market in health insurance in Spokane. They are  
10      the gorilla in the healthcare insurance market. And I think  
11      you know the joke about the gorilla. Where does the a  
12      gorilla sleep? Anywhere it wants to. Thank you. Anywhere  
13      he wants to.

14             Spokane's healthcare gorilla -- Spokane's healthcare  
15      industry does what Premera wants. We have to. Physicians  
16      that say no to a Premera contract will find the viability of  
17      their practices at risk. Yet as a for-profit entity, Premera  
18      will need to impose even more difficult terms on the  
19      contracts with their physician network to squeeze out profits  
20      for their investors for whom they have fiduciary  
21      responsibility.

22             Doctors' offices in Spokane already spend many hours  
23      trying to get approval for their Premera patients' referrals.  
24      When I was in private practice, we had to hire a full-time  
25      employee just to handle Premera's referral paperwork. If

1 converted to a for-profit, Premera will have more incentive  
2 to write barriers to patient referrals. The healthcare  
3 dollar can only be stretched so far. What fat and  
4 inefficiencies were in our system in the '90s has now  
5 vanished. Additional money sent to investors will mean less  
6 money for direct patient care.

7 Please do not allow this experiment to go forward. The  
8 cost to our community will be too great. Thank you.

9 COMMISSIONER KREIDLER: Thank you. Sandra Huggins.

10 MS. HUGGINS: I'm Sandra Huggins from Spokane. I'm  
11 with UFCW Local 1439 and the Spokane Lions. We appreciate  
12 the opportunity tonight to voice our opinion on Premera and  
13 their proposal. I'm the benefits director for UFCW Local  
14 1439 and represent over 4,900 members who currently have  
15 coverage with Premera. Our members are in the Eastern  
16 Washington, Central Washington, and North Idaho area.

17 In the last ten years our group rate has increased from  
18 \$234 to \$542 per person per month. This rate has increased  
19 132 percent in ten years. Our wages have not. The potential  
20 for much larger increases if Premera does become for-profit  
21 is our primary concern.

22 Our members appreciate having healthcare coverage as a  
23 part of their benefit package, and they've worked very hard  
24 to keep this coverage at an affordable level. At this point  
25 they cannot afford more benefit reductions or plan increases.



1 Our employers are asking that potential wage increases be  
2 used to fund these annual increases.

3 While our members healthcare costs rise, the wages  
4 remain the same. Knowing that the increases are not in the  
5 best interests of their plan will not be easy to accept.  
6 Losing our healthcare is not an option we are proud of. The  
7 fact that we have negotiated healthcare benefits is a major  
8 part of our collective bargaining agreements. We understand  
9 that all taxpayers will suffer when people go without  
10 insurance.

11 We would like to see Premera dedicated to improving  
12 healthcare coverage for their subscribers, not improving the  
13 wages and compensations packages of their top executives.  
14 It's our health, our life, our dollars that are at stake. We  
15 want Premera to answer to us, not a shareholder.

16 We need to trust that Premera is doing everything that  
17 it could to provide us with quality healthcare at the lowest  
18 possible rate. Our group needs participating healthcare  
19 providers and equal healthcare coverage in all areas of the  
20 state, including rural areas. The healthcare providers in  
21 our area cannot take any more reductions on their  
22 reimbursement rates. Many of our members choose to live in  
23 rural areas, but they shouldn't lose their healthcare  
24 providers as a result.

25 Please don't penalize the subscribers and healthcare

1 providers so that a small group of executives can profit. We  
2 ask that you deny Premera's application to convert to a  
3 for-profit corporation. Thank you for your time.

4 COMMISSIONER KREIDLER: Thank you. As John White  
5 comes up --

6 MR. WHITE: Yes. Yes, sir.

7 COMMISSIONER KREIDLER: -- let me just call the  
8 next three. Will be Joe Siemens, Judith Peralá, and Mike  
9 Wiltermood.

10 MR. WHITE: My name's John White, and I'm from  
11 Newport, Washington. Good evening. I'm the Chief Executive  
12 Officer of Newport Community Hospital. But tonight, I come  
13 to you to speak on behalf of the Northeastern Washington  
14 Hospital Council. This hospital council's made up of 17  
15 hospitals in the northeastern part of the state, some here in  
16 Spokane, and also hospitals --

17 COMMISSIONER KREIDLER: Excuse me. Pardon me.  
18 I --

19 MR. WHITE: That's all right. I'm sorry. Would  
20 you like me to start over?

21 COMMISSIONER KREIDLER: Please.

22 MR. WHITE: I'm not far into it. I'm from Newport  
23 Community Hospital. I'm their chief executive officer of the  
24 hospital. I represent the Northeastern Washington Hospital  
25 Council. There's 17 hospitals, some of which are here in

1       Spokane, the rest are in rural Eastern Washington here in  
2       this part of the state.

3             My written testimony includes a list of the hospitals if  
4       you'd like to see that. Hospitals in our council and  
5       statewide are -- along with other key healthcare providers,  
6       nurses, doctors, are concerned about the Premera conversion.  
7       We strongly oppose it. Fundamentally, we are worried that if  
8       Premera becomes a for-profit company, shareholders will  
9       expect to see a profit. And that profit must come from  
10      somewhere, either cutting things for the providers, raising  
11      costs for insurance coverage, or dropping less profitable but  
12      clearly important lines of business.

13            According to our colleges in other states, who have also  
14      faced these types of conversions, this converting to a  
15      fro-profit status is unnecessary, and it's not in the  
16      public's interest. From a survey of other state hospital  
17      associations where conversions have taken place, none of the  
18      health plans improved their performance in any area of public  
19      accountability. Subscriber services or providers', in  
20      several cases, performances worsened in the plain  
21      responsiveness to state policy, to the level of payments to  
22      providers, and to handling of disputed claims.

23            Our main concerns are several, number one, the effect on  
24      providers. In our area Premera is the largest insurer by a  
25      significant margin. In rural Eastern Washington Premera may

1 be the only insurer or one of the very few insurers, and we  
2 are, again, concerned that a for-profit Premera will seek  
3 profit by cutting rates it's paid to these providers. We  
4 believe that the providers' ability to collect fair payments  
5 will be threatened. Newport Community Hospital's had its own  
6 experience with Premera's running power. We're currently  
7 involved in a lawsuit for -- because Premera failure to pay  
8 critical access hospital program.

9 In a survey done by the Washington State Hospital  
10 Associations, many hospitals have cited current difficulties  
11 negotiating with Premera. They're concerned that they may be  
12 even more difficult to negotiate with it if they are a  
13 for-profit company, particularly in areas where there are no  
14 competitors. An insurer can drive a hard bargain if they're  
15 the only game in town. Many hospitals, particularly the  
16 rural hospitals, are in very difficult financial straits  
17 today, and a potential Premera payment cut is very difficult  
18 for these hospitals.

19 Our second concern, the effect on the public. We  
20 believe that conversion will hurt the insurance-buying  
21 public. We need to -- we think that the need to produce a  
22 profit, that could effect the public in the following ways:  
23 first of all, to increase the costs of health insurance;  
24 secondly, the potential reduction of benefits; and thirdly,  
25 dropping coverage for people who are sick, who are elderly,

1       who are low income, who live in rural areas served by public  
2       programs, or lines of business that are otherwise  
3       unprofitable. Ultimately, the conversion will increase the  
4       number of uninsured people in Washington.

5             In the past our state has benefited from a higher rate  
6       of insurance coverage than in many other states. Now, in the  
7       state's difficult economic times, as we created a new group  
8       of uninsured people, we do not want to see even more people  
9       without health insurance as a result of conversion. When  
10      people lose coverage, they often end up being treated in  
11      hospital emergency departments, where they wait to receive  
12      care until they are acutely ill and they have to be  
13      hospitalized. Many of our hospitals have strained sources  
14      and are struggling to provide care for the uninsured, who  
15      have lost they're medical coverage.

16            Third point, potential takeover can move out of state.  
17      In almost every other conversion in the country, once a Blue  
18      Cross Blue Shield plan is converted, it sells out to a larger  
19      out-of-state insurer. We believe that for-profit Premera  
20      would be a likely target for this type of takeover. This now  
21      seems even more likely as Anthem and WellPoint are  
22      considering a merger and becoming more exclusive. We're  
23      concerned the conversion will create an insurer with fewer  
24      connections to our communities and an insurer with a reduced  
25      understanding of our market and our geography.

1 Fourth point, less money for healthcare. We believe  
2 that the conversion will be a change for the worse in how the  
3 company spends its money. Proponents of the conversion claim  
4 that for-profit plans will achieve a scale and spend less on  
5 administration while, in fact, numerous studies have shown  
6 that the reverse is true. A significantly smaller portion of  
7 the for-profit planned revenue are spent on actual  
8 healthcare, and more is spent on administration.

9 Fifth point, evidence shows that conversions are bad.  
10 The preponderance of the evidence about what happens  
11 postconversion is negative. With the first proposed  
12 conversions, people did not understand what the effect would  
13 be and were enticed by the potential funding of the  
14 healthcare foundation. However, now that the insurance  
15 commissioners and the public experience analyzed what's  
16 happened in other states, their opinions changed. Several  
17 recently proposed conversions in Maryland, Kansas, and North  
18 Carolina have all been denied by the insurance commissioners,  
19 or they've been withdrawn.

20 And we would ask commissioner Kreidler to examine the  
21 evidence and do the right thing by denying the proposed  
22 Premera conversion. Thank you.

23 COMMISSIONER KREIDLER: Next we have Joe Siemens.  
24 Will you come forward? Followed by Judith.

25 (Interruption by court reporter to

1 slow speech.)

2  
3 MR. SIEMENS: I'll try to do that. My name is Joe  
4 Siemens, and I live here in Spokane. I'm a clinical  
5 laboratory scientist with the veterans administration. I  
6 have previously worked for Premera as special projects  
7 manager and also a healthcare contracting analyst.

8 Bonuses, salary increases, and other financial  
9 incentives for top executives often play a big role in  
10 corporate restructuring. In Maryland, when Blue Cross and  
11 Blue Shield applied for conversion, executive payouts were  
12 the primary motivation for the decision. Here in Washington,  
13 the application includes a plan to issue stock options to  
14 executives if the conversion is approved.

15 Premera has publicly stated that there will be no  
16 conversion-related bonuses for its top executives.  
17 Currently, Premera's executive bonuses are equal to 40  
18 percent of their base salary if financial targets are met.  
19 Therefore, if executive salaries increase upon conversion, so  
20 to will the bonuses.

21 Premera has never promised that executives will not  
22 receive conversion-related raises. In fact, salary increases  
23 begin occurring several years prior to the announcement of  
24 the plans to convert. Premera admits that their stock  
25 ownership plan lacks crucial details to calculate the value

1 of the potential payout to Premera insiders. In a number of  
2 other conversions across the country, salary increases for  
3 top executives have been implemented prior to the filing of  
4 conversion application. In nearly every category, Premera  
5 executives are paid two to three times more than their  
6 counterparts at Group Health and Regence Blue Shield in 2001.

7 When looking at other conversions and acquisitions in  
8 the U.S., across the board compensation peaks when this  
9 occurs. A study in 2001 showed that the average compensation  
10 awarded companies' highest paid execs was \$15.1 million.  
11 Each company's highest paid execs also had an average of  
12 \$67.7 million in unexercised stock options.

13 Premera admits that converting to a stock corporation is  
14 not a necessity, citing its steady financial performance in  
15 recent years. The question then is: What is Premera's  
16 driving interest in conversion? Would that interest wane if  
17 the OIC imposed conditions limiting salaries bonuses, stock  
18 options, and other forms of executive compensation? There  
19 are no other areas in healthcare that are paying salaries and  
20 bonuses that are as dramatic as what third party payers are  
21 being paid. Where does the money come from to pay these  
22 salaries? It comes from the subscribers who could hardly  
23 afford their health insurance.

24 We talk about limiting the cost of healthcare. This  
25 conversion has the appearance of conspicuous consumption.



1 Thank you.

2 COMMISSIONER KREIDLER: Thank you, sir. Judith  
3 Perala.

4 MS. PERALA: Good evening. I'm Judith Perala from  
5 Veradale. I have been a practicing registered nurse for 40  
6 years, 27 of those years here in Spokane.

7 I and so many of the people I have cared for have had  
8 Premera as their insurance carrier and have been well cared  
9 for. I feel that if Premera were to convert to a for-profit  
10 company, they would feel the need to satisfy their  
11 shareholders and board members rather than their  
12 policyholders. I do not feel it would benefit the health of  
13 this community if Premera were to convert to a for-profit  
14 company. I do not support the conversion. Thank you.

15 COMMISSIONER KREIDLER: Thank you. Mike  
16 Wiltermood. And, Mike, as you take a seat there, just let me  
17 call on the next three individuals. I would like to call on  
18 State Senator Jim West, Terry Luding, and not sure -- I'm  
19 not -- missing my spot here. And Tom Westbrook. Please.

20 MR. WILTERMOOD: Thank you, Commissioner. My name  
21 is Mike Wiltermood, W-i-l-t-e-r-m-o-o-d. I'm the  
22 administrator at Coulee Community Hospital in Grand Coulee,  
23 Washington, and the current resident of the Columbia Hospital  
24 with members in communities such as Ritzville, Davenport,  
25 Odessa, Ephrata, Quincy, and Clinton. Together,

1 collectively, our council services 100,000 people or more in  
2 an area of 10,000 square miles.

3 We have a disproportionate population that is poor in  
4 Grand Coulee. 45 percent of our population lives at  
5 200 percent of poverty level or below. We mostly serve  
6 health professional shortage areas. We often have to  
7 subsidize physician salaries in order to keep physicians in  
8 our communities and maintain our health system. In many  
9 cases we provide the only service available -- healthcare  
10 service available for an hour's drive in either direction.

11 We have opposed, as a council, the conversion to  
12 for-profit status by Premera principally because of its  
13 tremendous market share in our communities. For most of us  
14 Premera represents 60 to 80 percent of the commercial  
15 business that we have. We operate on very thin margins.  
16 Premera's a very tough business partner. At present,  
17 although tough, it's been fair, and we're concerned that  
18 for-profit status would increase premiums to our community  
19 and also reduce payments to our healthcare providers.

20 Just for illustration, for most of us as hospitals  
21 because of the tremendous market share that Premera has in  
22 our communities, a 5-percent swing in reimbursement and a  
23 5-percent discount or 5-percent increase in premiums for most  
24 of our hospitals would wipe out our operating margin  
25 completely.

1 I won't repeat the many fine points made by John White  
2 of Newport Hospital, just to say that we agree with them.  
3 But I do want to point out -- make one telling point and that  
4 is for-profit commercial insurance companies do not bid for  
5 businesses in communities like Grand Coulee. In Grant  
6 County, where our hospital is located, for-profit companies,  
7 such as Aetna and Signa, charge the state 20 percent more to  
8 manage Healthy Options contracts than does nonprofit  
9 Community Health Plan of Washington, and we can only get a  
10 contract with Community Health Plan of Washington. Signa or  
11 Aetna will not bid in our area.

12 So for those reasons, along with some others, we oppose  
13 the conversion. Thank you.

14 COMMISSIONER KREIDLER: Thank you. Jim West. And,  
15 Jim, congratulations on your election, mayor-elect of  
16 Spokane. Jim, this is being conducted under the  
17 Administrative Procedures Act, and if you would raise your  
18 right-hand.

19  
20 JIM WEST, having been first duly sworn,  
testified as follows:

21  
22 COMMISSIONER KREIDLER: Thank you.

23 MR. WEST: Thank you, Commissioner Kreidler.  
24 Welcome to Spokane.

25 I'm here in my capacity as a state senator, not as a

1        mayor. And I'm not here to judge whether Premera should  
2        convert to a for-profit company. You have before you  
3        thousands of pages of documents and several consulting firms  
4        that have been involved in looking at this, and they've made  
5        recommendations to you. And I'm sure there are many sides to  
6        the issue as you're hearing tonight.

7                However, I am here to talk about how companies doing  
8        business in Washington state need flexibility to make  
9        decisions that help them continue to do business in this  
10       state. We all know -- and I'm a member of the Governor's  
11       Competitiveness Council -- that it is very difficult for  
12       businesses in this state on many fronts.

13               We have, over the years, passed many pieces of  
14       legislation that have made it more difficult for businesses  
15       to survive in this business climate. And we see jobs being  
16       lost throughout the state because of that. We need to be  
17       going in the direction of making this a more job-friendly  
18       state, both in Eastern Washington and Western Washington.  
19       Health insurance is just one example of a business segment  
20       that we have not been able to attract to the state.

21               As you're aware, Commissioner Kreidler, there were a  
22       number of health insurance companies present in Washington  
23       state doing business in Washington state prior to the 1993  
24       Healthcare Act and prior to the actions of your predecessor.  
25       And we have not been able to attract those health insurers

1 back into this state. I think that's a major flaw in our  
2 system. We need that competition. We need those insurers  
3 back. And we need to keep the insurers that we have. As I  
4 say, we need more competition. We have a responsibility to  
5 maintain a positive business climate and attract quality jobs  
6 in this state.

7 Now, as I said in the beginning, I'm not in a position  
8 to judge whether Premera should be nonprofit or for-profit.  
9 And I think in full disclosure I should tell people that I am  
10 a subscriber to Premera, and this year I have used tens of  
11 thousands of dollars of their money for my medical  
12 treatments.

13 But I do ask the commissioner and others to take into  
14 account the ability of companies to be flexible to make  
15 decisions so that they can be financially viable in this  
16 state. Thank you very much for your time.

17 COMMISSIONER KREIDLER: Thank you, Jim. See you  
18 later this week in Olympia.

19 MR. WEST: See you over there. Good to see you.

20 COMMISSIONER KREIDLER: Terry Luding. Following  
21 Terry, Tom Westbrook.

22 SPEAKER: Terry Luding, L-u-d-i-n-g, from Deer  
23 Park. Tough act to follow. I'm a retired Steel worker from  
24 the now curtailed smelter, and my local union is a member of  
25 Spokane Alliance. I would like to say a little bit about

1        what could happen if Premera get privatized and control of  
2        the insurance moves out of the area.

3            The Northwest is only beginning to feel the impact of  
4        Boeing moving its headquarters to Chicago. Locally, there's  
5        several examples of companies that have been acquired by  
6        out-of-state corporations. Washington Water Power, a local  
7        utility, was bought by a VISTA, and it went from having a  
8        surplus and low rates to being in the hole and raising rates.

9            Another example is a little more personal to me is  
10       Kaiser Aluminium. It went from a profitable business into  
11       bankruptcy. It went from being a part of the community to a  
12       Houston-based ownership that didn't care about the community  
13       or the workers. Hundreds of thousands of dollars in profit  
14       taxes weren't paid which help support the schools that my  
15       kids go to. Superfunded clean-up sites have BandAids and are  
16       polluting our drinking water.

17           The Chief Regional Power was sold for hundreds of  
18       millions of dollars with stipulations of putting money back  
19       into the community and to pay the workers, which wasn't done.  
20       I was laid off along with hundreds of my coworkers, and our  
21       families have been devastated. The grocery stores and shops  
22       I spent my paycheck at suffered. When we cried out,  
23       "Houston, we have a problem," Spokane might as well have been  
24       on the other side of the moon.

25           Workers or Premera members, results are the same when

1 decisions are made with executives' and shareholders'  
2 interests in mind instead of being in touch with the  
3 community and people and their needs. Thank you.

4 COMMISSIONER KREIDLER: Thank you. Tom Westbrook.  
5 And, Tom, as you take a seat there, let me just call up the  
6 next three individuals. Karen Hyvonen, Jim Dunn, and Paul  
7 Brumsmun. Please.

8 MR. WESTBROOK: Tom Westbrook.

9 COMMISSIONER KREIDLER: I keep trying to put an e-r  
10 in that.

11 MR. WESTBROOK: I'm looking at the gentlemen in the  
12 suits. And I hardly wear suits anymore, but I have several  
13 in my closet. And I hope you'll not think less of me because  
14 I'm here in casual attire, one of the joy of retirement.

15 When I first was asked the question, "Would I like to  
16 testify?" I don't -- I didn't know. So I said "yes" so that  
17 I could decide not to. But the question that I hear is:  
18 Does Premera need capital? Depends what they want to do.  
19 Depends on what their needs are. And I am not competent to  
20 judge that. But I do know that Willy Sutton cleared out.  
21 Where do you go when you need money? You go to the banks.  
22 You go to the investors. Something about that's so easy  
23 about spending someone else's money. Let someone else take  
24 the risk.

25 This proposal looks so attractive at one level. But

1       like so many things, I'm wondering if this is easy to get  
2       into and seemingly cheap, but hard to get out. There's an  
3       old social-worker phrase that I think fits: "Beware. Help  
4       may strike at any time." Now, we have an offer of help.  
5       Gentlemen in the suits -- and right now I'm kind of fresh  
6       from responding to gentlemen in suits elsewhere. And that  
7       isn't fair for me to pass judgment on any of you. Let's  
8       assume that your hearts and motives are pure.

9               How costly might this be? Businesses can grow. And we  
10       would hope so. But businesses can fail. What then? This is  
11       a transactional matter. What risk are we taking? We are --  
12       we here are known as "subscribers."

13              Now, some hold a political view that government is bad  
14       and business is good. This proposal seems to have the name  
15       on it of those who are promoting this change and inviting us  
16       to make this change. I am not against putting things on a  
17       business-like basis. Not at all. But if and when bad things  
18       happen, and that of course is what insurance is all about,  
19       what insurance do we have? What are we left with? I can  
20       confess that I have more willingness to trust and rely on  
21       those who don't just answer to the stockholders, but to the  
22       populous.

23              Customers can be cut off and cut out. Citizens can have  
24       leverage that is not so readily terminated. Let business  
25       sell cars, hair restoratives, and lemonade, but not water,



1 air, and healthcare.

2 This is a complex matter, and I've offered you my bias.  
3 I have not had the opportunity and really the inclination to  
4 get into the nuts and bolts. But thank God you are our  
5 representative, and you will do your just diligence or  
6 whatever its called, and you will look out for us. Thank  
7 you, Mr. Kreidler.

8 COMMISSIONER KREIDLER: Thank you. Let me point  
9 out, Mr. Westbrook, that if you do have a inclination to dig  
10 deeper, it's all on our website. Thank you. Karen Hyvonen.

11 MS. HYVONEN: Good evening. My name is Karen  
12 Hyvonen. It's spelled H-y-v-o-n-e-n. I live here in  
13 Spokane. I am a member of Westminster Congressional Church  
14 of Christ, which is one of 36 members of the Spokane  
15 Alliance. Our denomination has approximately 30 churches in  
16 Eastern Washington. Most of those are in rural communities.  
17 These are communities that have been hit hard by the changes  
18 in our economy.

19 Right now, as a nonprofit, Premera's chief  
20 responsibilities are to the communities it serves, not to  
21 shareholders. If a for-profit Premera, which represents  
22 about 60 percent of the insurance market on our side of the  
23 state, decides to raise premiums or worse to pull out of  
24 those less profitable rural markets, it will severely impact  
25 not only our church members, but everyone on this side of the

1 state. Who will share the burdens of the cost of the  
2 uninsured? No foundation could fill the hole if real  
3 communities are abandoned.

4 In addition, if a for-profit Premera, whatever its  
5 current intentions, is acquired by the proposed combined  
6 Anthem-WellPoint Company, which has individually -- or they  
7 have individually swallowed up plans in 13 states so far, my  
8 concern is even greater. This proposed megacompany has  
9 already stepped to become one of the largest managed care  
10 plans in the country. If we want a national health plan, it  
11 should be one that we as consumers envision and create for  
12 the benefit of patients, not one designed by default to  
13 increase profits for shareholders or executives.

14 The health of each of us and of our community is an  
15 asset too important to give away. Thank you.

16 COMMISSIONER KREIDLER: Thank you. Jim Dunn.

17 MR. DUNN: My name is Jim Dunn. I live in Eaton,  
18 Washington. I have been involved in manufacturing for the  
19 last 25 years, held positions of vice president of finance  
20 and vice president of manufacturing operations and have been  
21 very involved with the impact over the years of healthcare  
22 benefits and costs.

23 Is that better?

24 COMMISSIONER KREIDLER: Get a little closer.

25 MR. DUNN: Okay. Does that sound better?

1 I'm also actively involved in the Spokane Alliance,  
2 which I joined about a year ago. And I want to thank you  
3 very much for the opportunity for this public forum, and it  
4 truly is a privilege to be able to represent my feelings that  
5 I know represents a lot of the community.

6 A nonprofit healthcare corporation has an obligation to  
7 provide services and benefits to its members. It has a  
8 primary responsibility to manage the members' assets. Its  
9 revenue comes from its members. It should be honest,  
10 up-front, and accountable to its members. I am against the  
11 Premera Blue Cross conversion because it has not proven to  
12 have the interests of the public membership or the larger  
13 community in mind. There appears to be a separate secret  
14 agenda with no clear justifiable cost or benefit for  
15 conversion, other than a very potential positive outcome to  
16 the executives.

17 If Premera goes public, the members' interests become  
18 secondary at best. Investors, that is the stockholders,  
19 probably most of whom will be from out of state, would demand  
20 return on their investment; the focus from member healthcare  
21 would move to a profit strategy. Rural healthcare services  
22 could be curtailed or eliminated. Payments to healthcare  
23 providers reduced, and premiums could increase at a rate  
24 higher than normal medical cost inflation levels. The  
25 overall quality and availability of healthcare could be

1 reduced.

2 It seems to me that the direction is being determined in  
3 decisions made by the board and executive staff without the  
4 understanding and the support of the very members -- and the  
5 very members that they are supposed to serve.

6 Some questions and concerns in researching this request  
7 for a conversion. Why weren't over 1 million members made  
8 aware of the intent to convert, that it would cost over  
9 \$7 million of their funds? What changed from February 2000?  
10 Premera stated that it had no intention to convert from a  
11 nonprofit to a for-profit corporation.

12 Why has the board raised executive staff compensation  
13 levels to where they are? What was their justification,  
14 especially when you compare compensation levels of their  
15 peers?

16 Why does Premera have \$250 million more in reserve than  
17 required by state law? Are members funding a reserve that  
18 makes an initial public stock offer or an IPO more  
19 attractive?

20 Explain why the existing nonprofit's assets that would  
21 be transferred to a new nonprofit foundation but still be  
22 owned by their Premera for-profit corporation. Could those  
23 assets still be used to promote the New Premera  
24 self-interests?

25 Lots and lots of questions, and members don't know. I

1 think citizen members of Premera Blue Cross have the right to  
2 know that -- how their assets are being managed and what  
3 strategic plans are being considered that could affect those  
4 assets. Instead the executive staff and board have acted  
5 independently with an apparent amount of self-interest and  
6 greed. I think Premera Blue Cross has lost vision of its  
7 original mission statement and needs to get retracked. In  
8 summary, there are too many secrets and untruths.

9 The Insurance Commissioner must deny the application to  
10 protect the state consumers. In addition, I feel very  
11 strongly and believe that the Commissioner should lead the  
12 way in establishing new laws or regulation that ensure  
13 greater accountability from nonprofit healthcare providers to  
14 the public they were designed to serve. Thank you.

15 COMMISSIONER KREIDLER: Thank you. A reminder --  
16 just say to the parties that, if they were moved to ask to or  
17 want to speak, they can certainly get my attention. I'm sure  
18 they've never been shy before. Just to remind them that that  
19 is part of the Administrative Procedures Act. Please.

20 MR. BRAMSMAN: My name is Paul Bramsman,  
21 B-r-a-m-s-m-a-n. I am from Spokane Washington. And I am --  
22 want to speak in opposition to the proposal.

23 I don't believe that an organization that is now --  
24 whose purpose now is to serve the healthcare needs of its  
25 residents would be adequately represented by a conversion in

1       which it would now be providing -- whose main goal would be  
2       to provide maximum benefits to its members.

3               We've heard that the conversion will result in a  
4       foundation. A lot of people are recognizing that the  
5       foundation is a source of money, and it's entirely  
6       speculation as to precisely what that foundation will do.  
7       Shares will be given to the foundation, but the shares will  
8       soon be -- can be diluted by Premera as the shares are  
9       adequate -- I had comments to make, and then I'm duplicating  
10      what people have said before. And I'm trying not to repeat  
11      myself.

12             I'm a member of the Spokane Alliance. We are -- our  
13      member institutions represent over 30,000 people in this  
14      area. We have established a team that has for several years  
15      been examining healthcare. And the conclusion reached by  
16      that team is that this conversion is not in the interests of  
17      our people. If I could, could I ask them -- with your  
18      permission -- ask those who are opposed to the conversion,  
19      just so that we can just see, if they would quietly stand?

20             COMMISSIONER KREIDLER: With all due respect, that  
21      isn't part of the Administrative Procedures Act and how we  
22      conduct our business. There certainly are a number that  
23      apparently are agreeing with your position, but that --  
24      there's no way of putting that into the court record.

25             MR. BRAMSMAN: Thank you.

1 COMMISSIONER KREIDLER: Thank you very much. Let  
2 me next call on Jean Hudson, Linda Kobe-Smith, and Chris  
3 Marr.

4 MS. HUDSON: I'm Jean Hudson, spelled J-e-a-n, and  
5 I'm a widow. I live here in Spokane. And I'm member of the  
6 Washington Action. And I --

7 COMMISSIONER KREIDLER: You almost have to eat that  
8 mic.

9 MS. HUDSON: And I agree completely with their  
10 fight against this conversion because I know how hard it is  
11 for me to pay for my high cost of medicine, which I have to  
12 take, and my premiums for my insurance. So I'm very much  
13 against it. Thank you.

14 COMMISSIONER KREIDLER: Thank you. Linda  
15 Kobe-Smith.

16 MS. KOBE-SMITH: My name is Linda Kobe-Smith, it's  
17 K-o-b-e Smith. And I'm a resident of Spokane. I'm a member  
18 of St. Ann's Parish, which is a member of Spokane Alliance,  
19 and I'm also a Premera subscriber. We've been -- we started  
20 with MSC. And I want to just share a few things as a  
21 subscriber and my experience as being part of the company --  
22 or being supposedly served by the company.

23 Currently we pay 10 percent of our gross income above  
24 what our -- to meet our premiums. That's beyond what the --  
25 after my husband's employer pays their share. And 10 percent

1 of our gross income goes to pay insurance premiums for my  
2 husband, my daughter, and myself. My experience as a  
3 subscriber has been one of less and less service and feeling  
4 like -- that my healthcare needs are somehow unimportant to  
5 the company.

6 About four years ago in a sledding accident, I broke all  
7 the bones across my ankle. At that time MSC -- or Premera  
8 had only two orthopedic people on their provider list. And  
9 we had to fight with Premera to pay the surgeon, who did  
10 it -- who did the surgery about an hour after the accident,  
11 because Premera was insisting that it was elective surgery.  
12 And that's just one small -- one small piece of my experience  
13 as a subscriber.

14 And so my concern is that, if this is the service and  
15 the importance that the subscribers have as a nonprofit, how  
16 low of quality and service and care will it go when the  
17 real -- the real importance shifts to shareholders, rather  
18 than those of us who have paid for insurance coverage and  
19 find that we're really not a significant player?

20 And so I oppose the conversion to a -- to a for-profit  
21 status.

22 COMMISSIONER KREIDLER: Okay. And next is Chris  
23 Marr. As he comes up, I would like to call Doug Williams,  
24 Elliott Fabric, and Deb Harper. Please.

25 MR. MARR: Good evening, Commissioner. Chris Marr,



1 M-a-r-r, from Spokane. I'm the managing partner of a local  
2 business with 150 employees for whom we supply wholly paid  
3 health insurance and subsidized dependent coverage. I am an  
4 immediate past chair of the Spokane Regional Chamber of  
5 Commerce. I serve on the executive committee of Empire  
6 Health Services Hospital System, and I'm a board member of a  
7 not-for-profit healthcare insurer. However, I need to  
8 disclaim up front that I don't speak for any of those  
9 organizations tonight.

10 The testimony I would like to offer really is on  
11 behalf -- and offers the perspective of a long-time business  
12 and civic leader who has worked actively in the area of  
13 healthcare public-policy formation and advocacy at the local,  
14 state, and federal level. I think given the complexity and  
15 seeming insolubility of the healthcare conundrum in this  
16 country, I don't think that gives me the right to say much  
17 more than I think I'm trying to understand how healthcare  
18 works. Certainly doesn't give one the right to suggest that  
19 they have the solution to the crisis of access and  
20 affordability that exist right now in healthcare.

21 For the last three years, my company's group health  
22 coverage has been provided by one of Premera's for-profit  
23 competitors. We actually switched from a not-for-profit  
24 provider -- not Premera by the way -- because of a more  
25 affordable rate structure. And in the view of our employees,

1 we haven't seen any deterioration in the quality of  
2 healthcare received.

3 Now, I'm not suggesting that this particular piece of  
4 anecdotal evidence is proof that for-profits are less  
5 aggressive in terms of their premium producing, or more  
6 efficient, or that they provide a quality of healthcare. I'm  
7 merely suggesting that there's a lot more to these things  
8 than whether or not there's a shareholder involved. If I  
9 were to suggest that -- if I were to suggest that, I would  
10 been engaging in the type of fear-based generalization that  
11 some conversion opponents are using to make their case.

12 Now, I've read a number of allegations of restricted  
13 access, skyrocketing rates, reduced quality of care, lower  
14 reimbursement, and lack of coverage in rural areas. Funny  
15 thing is, these are all very real considerations in Eastern  
16 Washington.

17 Now, today, despite the large market share currently  
18 held by not for-profits, why is that? It's because the  
19 healthcare crisis is an amalgamation of many bad  
20 public-policy choices and cost; for instance,  
21 pharmaceuticals, the largest survivor of health care  
22 inflation; inadequate state and federal state reimbursement  
23 levels, which punish the efficiencies of our local healthcare  
24 delivery; overregulation or in some cases underregulation,  
25 like the Blue Shield hospitals right across the boarder here.

1 State mandates, malpractice, charity care and other costs  
2 shift from the public-sector to the private-sector providers,  
3 like myself and many of the others in this room, and I can go  
4 on.

5 Each of these in my view is a much bigger issue than the  
6 decision of one particular provider to seek capital from the  
7 marketplace. It's all too tempting, I think, to paint the  
8 motivation of Premera and assign outcomes by pointing to the  
9 excesses of Wall Street. And I think a number of people have  
10 done that. The fact is, in retrospect, if you look at the  
11 actions of the Enrons and the global problems of the health  
12 status of the world, they really could easily have been  
13 predicted based on their corporate culture and their record  
14 of behavior long before those excesses came to light.

15 As a community leader and a hospital board member, I  
16 have witnessed Premera's actions as corporate citizen over a  
17 long period in healthcare education, underwriting, and  
18 actively promoting a viable two-hospital system. And I can  
19 tell you, having actively been involved with a troubled  
20 healthcare system, Empire Health Services, I don't believe  
21 without the concern and assistance and concern for  
22 maintaining competitiveness in our healthcare delivery system  
23 here locally we would have been able to weather some of the  
24 real problems we've had over the course of the last year or  
25 so.

1           Also, in terms of advocating rural healthcare and  
2           promoting a committee involvement model, the board of  
3           executive leadership that have championed, those values will  
4           be in charge of the New Premera and, I am convinced, continue  
5           to work on behalf of affordable quality healthcare in Eastern  
6           Washington.

7           And I'm not going to go into details debating the  
8           potential for the exorbitant premium increases, decisions  
9           that exit on profitable lines, or executive compensation  
10          because I think Premera and others have provided testimony  
11          that at least, in my mind as an employer, community leaders  
12          have been adequately addressed.

13          I will state, however, that it is my fundamental belief  
14          that a properly functioning free-market system will provide  
15          the staples that offer the greater benefit to society. In  
16          terms of executive compensation or competitive premium level,  
17          the market does have a way of correcting those things over  
18          the long term. If we think that circumventing the  
19          free-market system does away with those concerns, I'll assure  
20          you that they do not. They simply allocate those  
21          efficiencies as social costs among all of us as citizens.  
22          Now, not that that's necessarily a bad thing or a good thing,  
23          it just goes back to my contention that simply foreseeing the  
24          financial structure on one competitor does nothing to enhance  
25          the healthcare equation for society as a whole. I think in

1 the end that's really what this discussion's about.

2 But that said, I really wouldn't be here discussing or  
3 testifying because I believe in a free-market system or  
4 because I believe this particular conversion issue was not as  
5 significant as other healthcare challenges. I'm here because  
6 I believe that Premera has, in fact, made a solid case that  
7 its needs -- that it needs access to capital to serve  
8 1.4 million existing customers, to grow its existing customer  
9 base, to maintain the reserves that that growth requires that  
10 it can't obtain through existing margins, and also, fund  
11 needed investment of products, technology, and support  
12 facilities, truthfully and hopefully much of that in Eastern  
13 Washington and also here in Spokane where Premera has been a  
14 significant employer presence for a long time, also,  
15 something that has been touched upon my many, as a committed  
16 volunteer, many efforts throughout Eastern Washington and  
17 throughout our state which would be served by the charitable  
18 foundation that Premera proposes to create with this new  
19 market valuation. I also view this as a positive outcome of  
20 Premera's conversion proposal. And given these many unmet  
21 healthcare needs, particularly in rural communities, I think  
22 the investment's timely, and it's desperately needed.

23 I would just like to close by thanking you for providing  
24 this opportunity. I think many good issues have been raised.  
25 I think many of them require clarification on the part of

1       Premera, and also a thoughtful deliberation on your part. I  
2       just hope that your deliberation is based on fact and it  
3       doesn't enter the desire to create a villan or a simple  
4       solution to a very complex healthcare problem. Thank you.

5               COMMISSIONER KREIDLER: Thank you. Doug Williams.

6               MR. WILLIAMS: Thank you very much. I'm Doug  
7       Williams. I'm from Leavenworth, Washington. I'm the  
8       administrator and CEO of Cascade Medical Center in that small  
9       community. I also am representing the other six hospitals in  
10      the Central Washington area who have asked me to come  
11      tonight.

12              We're a small town. We're in the mountains. And we  
13      have 3 to 4 feet of snow. We're 30 miles from Wenatchee. So  
14      we're not too far from the city, but there are times in  
15      Leavenworth where the population grows to 20 times its normal  
16      size 'cause we're a tourist town. During those times, we  
17      consider Wenatchee to be one of our suburbs. We're a public  
18      hospital district. That means we're nonprofit, and in every  
19      sense of the word that is true. We are very nonprofitable.

20              How do you forget the behavior of a large insurance  
21      company who changes their fundamental mission? I've been  
22      asking myself that question. And will that change be good  
23      for the patient or not? One of the ways that I do that is to  
24      say, "What has their past behavior been like, and will that  
25      potentially change in the future when they change their

1 mission?" And I want to share with you what my experience  
2 has been with Premera as the CEO of our hospital.

3 About three years ago we were in deep financial trouble,  
4 on the verge of closure. And I asked my CFO to step aside  
5 and let me negotiate payer contracts. So I sat at the table  
6 with Premera, which was the first contract that I negotiated.  
7 I learned very quickly what their relationship -- what they  
8 viewed their relationship with me to be.

9 They are a very major force in Chelan County. Estimates  
10 range from 80 to 90 percent of the commercial market is  
11 theirs. They are a de facto monopoly in our area. I don't  
12 think that's bad. At least our people have somewhere to buy  
13 a policy. I don't think it bad to be a monopoly. I think  
14 it's bad to act like one, and that's what I found.

15 When I sat down with Premera, the first thing I did  
16 was -- before I did that I read the contract. And I learned  
17 you have to get up early in the morning to do that. It's 60  
18 pages, and it will put you to sleep in a hurry. However, I  
19 read it all, and I found it very one sided, almost punishing  
20 to our hospitals and physicians. We have a six-physician  
21 primary care clinic with our hospital. So I rewrote the  
22 contract, at least those parts of it that I thought were so  
23 onerous and I sent that back, and all of those comments were  
24 rejected. All of them.

25 When I sat down with the negotiator, it became very

1 clear what they wanted. He said, "You know, really, Doug, we  
2 really don't need you. We have Wenatchee. And we have a  
3 good deal with Wenatchee, and our patients up here, our  
4 subscribers, they can drive that far. So, really, we don't  
5 need you. And so this is the rate that we'd like you to  
6 accept." And it was a 30-percent reduction from what they  
7 were paying us at the time. They said, "You really can take  
8 this or leave it. It doesn't matter to us."

9 And I said, "We'll leave it. But I will communicate  
10 with the eight or nine thousand people that live in our  
11 hospital district out there in the mountains about this  
12 conversation and let them see their other choices." There  
13 weren't very many for sure.

14 I went to our board of commissioners, and I said, "It  
15 doesn't look like we'll be able to sign a contract with  
16 Premera. They're paying us less than our costs. If we lose  
17 \$100 on every patient, you can't make it up on volume." Our  
18 board supported me on that. And said that's okay.

19 As it turned out, I talked to the other five small  
20 hospitals in our Central Washington area, and they had been  
21 treated the same. And we were able, then, to come together  
22 as group. Under the statutes we could negotiate payer  
23 contracts together. And we did do that and were able to, as  
24 group, negotiate a rate that we could live with.

25 But all this tells me that, when the financial driver



1 moves from a reasonable margin that can remain invested to  
2 that plus an amount that has to go to the stockholder, that  
3 negotiations can be very cruel for a small hospitals. I  
4 believe Premera has already begun to lose sight of the  
5 patient. They're willingness to make our patients drive in  
6 inclement weather a long distance in order to maximize their  
7 margin became very clear to me.

8 If you have the financial pressures of satisfying  
9 stockholders, I think that indeed patients will get  
10 forgotten. When you're a de facto monopoly, you can get away  
11 with that because the patients don't have very many choices.  
12 I'd like to see Premera envision itself as a partner with our  
13 doctors and our hospitals in providing good care to our  
14 patients, not as a partner with a stockholder and an  
15 adversarial relationship with our doctors and hospitals and  
16 patients.

17 I fear that if the conversion goes through that the  
18 latter will prevail. Thank you very much.

19 COMMISSIONER KREIDLER: Thank you.

20 MR. FABRIC: My name is Elliott Fabric, and I'm a  
21 Spokane resident and a healthcare consumer.

22 You know, I've been listening to all this, and I've been  
23 reading in the paper and trying to follow along and figure  
24 out what's going on with this entire situation. And it's  
25 been troublesome, you know, that you -- on one hand, you

1 sometimes hear that Premera is healthy. It has adequate  
2 reserves. It's a wonderful business model. And it's a great  
3 thing that people should invest in if it's goes private.

4 On the other hand, I'm hearing that they are very  
5 concerned about the reserves, and that they need to go to the  
6 capital markets to maintain enough funds to move into the  
7 future. And it's sort of like it can't be both ways. It's  
8 one way or the other.

9 And if it's healthy, you know, I would suggest that they  
10 continue in the present form. It's a healthy business. If  
11 it's not healthy, then I think we need to address why it  
12 isn't. And if the reserves aren't adequate -- and if the  
13 reserves aren't adequate and it's not healthy, then why are  
14 all the initial -- all of the initial funds from the initial  
15 public offering going to go into a charitable foundation? I  
16 mean, this whole thing is just not making sense. There's  
17 something here that isn't adding up. And I think Premera has  
18 not made its case for going private.

19 One of the things that I would like to believe is that  
20 the leadership at Premera, the directors and the executives  
21 at Premera, have the best interests of their marketplace of  
22 us consumers at heart. And if they do, I would suggest that  
23 in the interests of full disclosure you put on the table what  
24 the compensation packages look like, what the option packages  
25 are going to look like, and make some sort of commitment that

1 at least for the next 10 years going into the future that all  
2 options, all compensation and all benefits, all bonuses, be  
3 fully disclosed to the public within 60 days of the grant of  
4 any options being made.

5 You know, I think, if we've shined light on this  
6 situation, we're going to get rid of the suspicion that  
7 abounds in the public, and I think we can move forward in  
8 some, sort of, a positive fashion. But I would ask as a  
9 precondition that full disclosure be maintained all the way  
10 down the line, continuing forward. And that's really all I  
11 have to say.

12 But at this present moment I don't believe Premera has  
13 made its case, and I would, therefore, ask that the  
14 conversion not move ahead. Thank you.

15 COMMISSIONER KREIDLER: Thank you. Let's see if  
16 I --

17 DR. TRYTKO: I'm not Dr. Deb Harper. But she's in  
18 my spot, so I thought I would -- she spoke in my spot, so I  
19 was going to speak in hers.

20 COMMISSIONER KREIDLER: Okay. Let me -- were you  
21 here to take the oath?

22 DR. TRYTKO: No.

23 COMMISSIONER KREIDLER: Let me ask you to raise  
24 your right-hand.

25 ////

1 ROBERT TRYTKO, M.D., having been first duly sworn,  
testified as follows:

2  
3 COMMISSIONER KREIDLER: Thank you.

4 DR. TRYTKO: My name is Dr. Rob Trytko. I'm the  
5 past president of the Spokane County Medical Society and  
6 current board member of the Washington State Medical  
7 Association and speaking in opposition to the for-profit  
8 conversion of Premera.

9 To give you a little history, back in the early '90s the  
10 market in Spokane was very concentrated. Despite that fact,  
11 there was a very unwise merger that occurred between Blue  
12 Cross Blue Shield and Alaska MSC that resulted in Premera --  
13 not surprisingly -- soared to well over 5,000 Premera market  
14 share. Currently in Spokane it is 68 percent. It is a  
15 monopoly. I think you can safely say that the health  
16 insurance market has failed. There is no competition.

17 So how has Premera acted in this failed market? I  
18 believe that they have affected the structure of the market  
19 by erecting barriers to entry to new competitors. There's no  
20 competition in Spokane. They've also segmented the market, I  
21 think. It's interesting in Spokane, like in many places of  
22 the state, Premera and Regence simply do not compete with  
23 each other.

24 Premera utilized its pricing power to rapidly increase  
25 premiums, but more importantly; in our perspective, to reduce

1 physicians reimbursement. For this reason, a lot of  
2 physicians at a very alarming rate have left Spokane. My  
3 group alone, 20 anesthesiologists have lost 12  
4 anesthesiologists, 12 out of 20 in the last four years.

5 They also avoid risks. Premera has excluded certain  
6 highly specialized medical practices. They've erected  
7 administrative hassles to prevent payment. And I believe  
8 forced physicians into very unfavorable contracts. Like a  
9 good monopolist, they also have reduced output. They've  
10 eliminated coverage for the sickest of patients. They've  
11 turned their backs on the poor by not participating a lot of  
12 times with BHP or Healthy Options. The individual market is  
13 all but dead. If you read the editorial in the Spokesman  
14 Review today, physicians said that these are all prudent  
15 business decisions. In my opinion, I think that's not what I  
16 would have expected of a company like Premera.

17 Finally, Premera has not performed. I don't think that  
18 they've seen and used their very unique position in the  
19 healthcare market to improve quality of care. They also  
20 haven't used their economy scale to improve efficiencies.  
21 Sadly, today Premera spends more on itself than it does on  
22 all of its contracted physicians combined. And to that I  
23 say, What a waste.

24 But what about its capital? You are very familiar that  
25 after the Healthcare Reform Act of 1993, the dominant

1 insurers that would remain, like Premera, drove the medical  
2 loss ratios down to all time lows, creating windfall profits.  
3 According to the National Association of Insurance  
4 Commissioners' data, by the end of the '90s, the Washington  
5 State health insurance companies possessed nearly 10 percent  
6 of all the reserves of all of the companies in the entire  
7 country. It's hard for me to believe that they need more  
8 capital.

9 But that is the past, and I want to speculate about the  
10 future. What will happen if they become for-profit? Well,  
11 first, of course, they will surely use their monopoly power  
12 to maximize their profits. They will drive premiums up and  
13 physician payments down and export profits out of state to  
14 the shareholders.

15 Second, I believe that, like a good monopolist, they  
16 will reduce output by eliminating unprofitable lines of  
17 business and market segments. They may even decide to leave  
18 the state altogether.

19 But finally, Premera will continue to enrich itself.

20 For all of these reasons, I would urge the Commissioner  
21 not to approve the for-profit conversion. Thank you.

22 COMMISSIONER KREIDLER: Thank you. Next I'd like  
23 to call Lloyd Guthrie, Glen Stream, and Robert Hartman,  
24 please.

25 MR. GUTHRIE: Hi. I'm Lloyd Guthrie --

1                   COMMISSIONER KREIDLER: Please, excuse me. I'm  
2                   sorry.

3                   MR. GUTHRIE: I'm Lloyd Guthrie. I'm an executive  
4                   director of Spokane Cardiology. It's a cardiology group  
5                   that's been in business in Spokane since 1969.

6                   I'm here to talk about a couple of levels. I think  
7                   we -- when we analyze our relationship with Premera, we look  
8                   at this conversion in several ways. First of all, I want to  
9                   say from the standpoint of our business relationship with  
10                  Premera, the clinical programs that Premera's involved with  
11                  that we have seen -- I've been involved with Premera for 15  
12                  years, and I've seen a tremendous improvement in their  
13                  operations, in their commitment to programs that better the  
14                  health of their enrollees and their subscribers.

15                  And also, they've taken the lead in reducing overhead by  
16                  prompting the Washington State credentialing forms  
17                  (phonetic), pretty much eliminating referrals. All of those  
18                  things have generated overhead for our groups. As an  
19                  example, our group has ten full-time employees dealing with  
20                  billing issues for 15 physicians when I started, we had eight  
21                  doctors; we had 10 FTs. And Premera helped tremendously in  
22                  reducing our overhead by making systems more efficient.

23                  The second issue is our regional health-plan needs. And  
24                  we believe that Premera needs to be a strong plan. We  
25                  believe the people at Premera have the interest of region in

1 mind, and we support Premera continuing as a regional health  
2 plan. On the other hand, we make no statement about the  
3 correctness of their for-profit versus not-for-profit effort  
4 now. The -- they have to have reasonable return. And we  
5 believe that at 1.4 percent return is not reasonable, and  
6 subsequently they do need access to capital markets. We all  
7 have that issue.

8 The third area is really related more to the business  
9 side of things as a provider. I will say that several years  
10 ago our group was excluded from Premera's MSC care plan and  
11 because of that, according to my calculations, for a 20-year  
12 period, because the patients didn't have access to our  
13 cardiology group for six years, the revenue impact would be  
14 about \$50 million over the next 20 years. Now, while we  
15 support the people at Premera, now we're very concerned that  
16 the potential of public markets will force Premera to narrow  
17 their networks and subsequently leave others out.

18 And -- and then on the executive-compensation issue,  
19 when we look at Premera's value at a corporate level, if  
20 their IPO comes in at somewhere between \$100 million, \$200  
21 million, 7 percent of that -- from what I read, 7 percent of  
22 that may be set aside for executive and board compensation  
23 over time.

24 If you look at Premera's financials, Premera, in fact,  
25 is not -- I'll just use the 2002 financials -- Premera in our



1 estimation is not a \$2.1 or \$2.5 billion company. Premera's  
2 actual value is something they create through their  
3 administrative work, which is somewhere around \$400 million  
4 in 2002. If, in fact, the value of Premera is at  
5 \$400 million, creates a possible \$14 million set aside for  
6 executive and board compensation. We believe that number is  
7 askew. Thank you.

8 COMMISSIONER KREIDLER: Thank you.

9 DR. STREAM: Sorry to make you struggle reading a  
10 doctor's handwriting. My name is Glen Stream, S-t-r-e-a-m.  
11 I am a family physician practicing here in Spokane. And I  
12 represent the 2,500 members of the Washington Academy of  
13 Family Physicians as a past president of that organization.

14 Our academy is opposed to Premera's proposed conversion  
15 to a for-profit company. Our criticisms have previously been  
16 stated in forums such as this and repeated here by previous  
17 speakers. They related largely to concerns of the demands of  
18 a for-profit company to respond to its shareholders. Our  
19 concerns have to do with the potential continuation for  
20 increase premiums for consumers, decreased payments to  
21 providers, and potential withdraw from unprofitable markets.  
22 These concerns have been validated in several of the  
23 consultant reports.

24 The issue of conversion cannot be considered in  
25 isolation. Our healthcare system is in crisis and on the

1 edge of a disaster. Many of my fellow academy members  
2 practice in rural Eastern Washington. These practices are  
3 already in financial peril. Inadequate reimbursement from  
4 public payers coupled with increased practice costs,  
5 including medical liability premiums, threatened the actual  
6 viability of these practices.

7 The dominant commercial payer is Premera. If Premera's  
8 payments to providers were to decrease, this could represent  
9 the last straw in the viability of those organizations and  
10 allow the collapse of those practices. Large geographic  
11 areas of Eastern Washington, as a result, could be  
12 underserved as far as healthcare services.

13 No one can predict the future of anything with any  
14 certainty. If the conversion proceeds, it is certainly  
15 possible that Premera will grow prosperous as a result of its  
16 increased access to capital. There may be no impact on  
17 provider payments or on consumers. And there may be  
18 wonderful benefits from the proposed foundation. However, it  
19 is at least equally likely that the conversion will have  
20 severe adverse effects on our healthcare system, especially  
21 here in Eastern Washington.

22 Physicians are very familiar with dealing with this type  
23 of uncertainty. Patient response to treatment is never  
24 completely predicable. The guiding principle in dealing with  
25 this certainty has been unchanged for 2500 years. That

1 principle is: First do no harm.

2 The proposed conversion to for-profit represents a  
3 significant risk to the fragile state of our healthcare  
4 system and to the patients it serves. Commissioner Kreidler,  
5 I urge you to first do no harm and not allow Premera's  
6 conversion to for-profit. Thank you.

7 COMMISSIONER KREIDLER: Thank you. And I presume  
8 you're Deb.

9 DR. PETERSON: No. I'm actually Dr. Elizabeth  
10 Peterson. And since Dr. Hartman already spoke and we came as  
11 group, I'm taking his spot if that's alright.

12 COMMISSIONER KREIDLER: State your name again.

13 DR. PETERSON: It's Elizabeth Peterson,  
14 P-e-t-e-r-s-o-n. And first of all, thank you for holding  
15 these hearings and giving me the opportunity to speak. I am  
16 the immediate past president of the Spokane County Medical  
17 Society and also a member of the board of trustees of the  
18 Washington State Medical Association. The County Society has  
19 over 1,000 members. The state organization has approximately  
20 6,000 members. And representing them, I would like to speak  
21 in opposition to the proposed conversion.

22 I would like to address the potential impact this  
23 proposed conversion would have on access to care and  
24 coverage, particularly in Spokane where Premera enjoys market  
25 dominance. Based on my experience with Premera in the past,

1       experience with conversion of other companies elsewhere, and  
2       the report of the expert consultants commissioned by the  
3       Office of the Insurance Commissioner itself, the following  
4       are likely to occur with Premera's proposed conversion:

5           Elimination of coverage for the sickest patients,  
6       elimination of coverage for people at the greatest risk of  
7       getting sick, shunning of areas with the least population,  
8       reduction of coverage for prescription drugs, ending of  
9       coverage for the poor by ending participation in the Basic  
10      Health Plan and Healthy Options, dropping of comprehensive  
11      coverage in favor of catastrophic plan, thereby reducing  
12      coverage for primary and preventive care, such as Well Baby  
13      and Well Child Care and immunization, weakening of the  
14      already feeble market for individual coverage and undermining  
15      of network adequacy. Thus, for these reasons I do not  
16      believe that the conversion will serve the citizens of  
17      Spokane.

18           Although we can only speculate about the outcome of  
19      conversion or not conversion, I would ask the Commissioner to  
20      weigh very carefully the two questions in this regard. What  
21      is the worst that would happen if the conversion does not  
22      take place, if capitalization does not succeed? Please weigh  
23      this carefully against the other question: What is the worst  
24      that can happen if it does? Thank you very much.

25           COMMISSIONER KREIDLER: Thank you. I would like to

1 call on Cary Bush. And I believe Dr. Trytko already spoke.  
2 And Brian McAlpin and then -- and then Patrice Pendell.  
3 Mr. Bush, go ahead.

4 MR. BUSH: My name is Cary Bush. I'm a resident of  
5 Spokane. My background is 40 years of being a certified  
6 public accountant until my retirement. And that retirement  
7 comes about as -- because I was, kind of, in competition with  
8 Jim West with how much money we might spend this year.

9 I voted for one Democrat in my life, and that was Wade  
10 Morris. So you think that I would be much in favor of this  
11 proposal. In fact, I describe my politics as somewhat to the  
12 right of Attila the Hun. But what -- I also happen to be a  
13 share in -- a very small shareholder, in the Potlatch  
14 Corporation. And what we're going to see with Blue Cross  
15 converting to a public company is the same thing that we see  
16 at Potlatch Corporation, where "Oh, my gosh. You know the  
17 prices for our paper product are so low that we can't make  
18 any money, so we're going to cut all the -- we're going to  
19 cut the stockholders' dividends. We're going to layoff an  
20 awful lot of loggers and people. And we're not going to do  
21 the maintenance on our plant. But, oh, my gosh. We should  
22 look at the proxy statement and see the way the amounts of  
23 the executive compensations have increased." And that's what  
24 this plan is going to end up to be, is just nothing more than  
25 huge money grabbed by the executives of the public company.

1           And I'd like to ask the chief executive back there:  
2           Will you be willing to limit your increases in compensation  
3           and total benefits, including stock option values being  
4           expensed as -- are being done by a rather large number of  
5           public companies now? Would you limit those to the same  
6           increase that occurs in minimum wage in the State of  
7           Washington? If you can give me a positive answer to that,  
8           maybe I'll rethink this.

9           Now I have a question for the investment banker over  
10          there. Common stock is probably -- and I've done enough  
11          securities work early in my career to know that common stock  
12          is the most expensive form of capital raising there is.  
13          There's a lot of -- if -- if Blue Cross really needs this  
14          additional capital, there's a way that -- to obtain this  
15          capital that a lot much less cost. And the investment banker  
16          over there should be able to come with it quicker than I can  
17          snap my fingers here together. And I'd like to ask him about  
18          that if he's going to do some testimony here. If you can't  
19          answer that, then perhaps...

20                 COMMISSIONER KREIDLER: Cary, the questions can be  
21          posed as a part of the record, but responses are not part  
22          of --

23                 MR. BUSH: Okay.

24                 COMMISSIONER KREIDLER: -- this proceeding.

25                 MR. BUSH: This is going to be returned to the

1 stockholders. And the additional executive compensation  
2 that's going to occur through this plan is going to be just  
3 like what's happened at Potlatch. It's either going to be in  
4 the -- reduced to the stockholders, which basically it's the  
5 consumers of medical services that are being the insurance  
6 policies who are the stockholders in the Blue Cross  
7 corporation in one large sense today.

8 So it's going to be reduced there, or they're going to  
9 be reducing their payments to their logger providers, which  
10 means our hospitals, our doctors. And this is just something  
11 which is going to be a financial boom, dollars to line the  
12 pockets of the, as the gentleman said previously, of the  
13 suits. Thank you.

14 COMMISSIONER KREIDLER: Yes, sir. Brian McAlpin.

15 MR. McALPIN: Yes. I'm Brian McAlpin,  
16 M-c-A-l-p-i-n. Thank you for taking the time to listen to my  
17 comments regarding Premera's application to convert to a  
18 for-profit health plan.

19 While this subject is as rich with opinions and  
20 emotions, I wish to share with you my thoughts based on  
21 20-plus years of experience in healthcare administration.  
22 During that time I have worked with and observed many health  
23 insurance companies, both not-for-profit and for-profit plans  
24 in California to Kentucky and New York to Washington. With  
25 this experience I have seen health plans drop insurance

1 coverage on patients and employers, arbitrarily reduce  
2 reimbursements to providers, implement significant premium  
3 cost increases, and withdraw from geographic coverage areas.  
4 All of these actions taken ultimately hurt the patient.

5 This being said, the one thing that I have seen is that  
6 these actions were not only taken by for-profit health plans.  
7 In fact, it's been my experience that both not-for-profit and  
8 for-profit health plans are willing and able and often do  
9 take these types of actions. The only differentiating factor  
10 that I have seen positively influencing both not-for-profit  
11 and for-profit health plans, thus allowing them to make good  
12 patient centered decisions, is living in their value systems.  
13 I have observed that the decisions based upon the values,  
14 integrity, and commitment of a health plan's leadership are  
15 the key requirement for taking positive patient centered  
16 actions.

17 I have not seen that -- I have not seen that a plan's  
18 tax status has any significant impact or influence upon such  
19 decisions. Why is this important in this situation you're  
20 considering? Because in the two years I have interacted with  
21 the staff and leadership of Premera Blue Cross. I have seen  
22 them follow just such high values and integrity accordingly.  
23 I believe they will continue to make good decisions for  
24 Washington, regardless of whether they are a for-profit for a  
25 not-for-profit entity. Again, I believe they will do this



1 not because of some financial gain, but because it's the  
2 right and professional thing to do for their patients.

3 I have found Premera Blue Cross staff to be honest and  
4 true to their word and will continue to do the right thing  
5 for their customers as we move into the very uncertain future  
6 in healthcare.

7 Thank you for giving me the opportunity to share my  
8 comments.

9 COMMISSIONER KREIDLER: Thank you. Patrice  
10 Pendell. And as Patrice comes forward, let me call on the  
11 last two individuals who will have an opportunity to speak.  
12 And that will be Margaret Klubben and Kathy Barrick. I don't  
13 believe -- were you here to be administered the oath when you  
14 came in?

15 MS. PENDELL: Yes, I was. Good evening and thank  
16 you, Commissioner Kreidler, for being here. And I would like  
17 to say thank you to our recorder for doing such hard work.  
18 Thank you. My name is Patrice Pendell, P-e-n-d-e-l-l. I'm  
19 from Spokane, Washington.

20 The goal and purpose of healthcare is to provide  
21 healthcare for its members. And let's not be naive. It's a  
22 business, too. Insurance administrator must balance profit,  
23 philanthropic activities, needs of physicians, patients, the  
24 community, and the company. My concern comes from personal  
25 experience.

1           My lobby began in April of 2003. As a younger patient,  
2           who has waited until pain has become unbearable and in  
3           waiting has hoped for improvements in technology, the day has  
4           arrived that I can get a total hip replacement that will  
5           perhaps last my entire lifetime. Yet I had to continue to  
6           wait. I have already had one done five years ago. And now  
7           the ceramic-on-ceramic trident total hip replacement best  
8           serves myself, an unusual, but not uncommon patient, who is  
9           young active yet suffers from degenerative arthritis. This  
10          implant does cost more, about \$3,000 more. But is this more  
11          than one or two or perhaps even three operations that I would  
12          have to face with another implant?

13          It is good business to put this type of replacement in a  
14          patient like myself. Yet when I went to Premera, I was  
15          denied. The medical community at Premera has -- the medical  
16          committee -- oh, excuse me -- hospitals, the provider of the  
17          implant, Howmedica, the orthopedic surgeons in the community  
18          have all come together and come to the table with defined  
19          criteria and making concessions. Yet -- and the medical  
20          committee at Premera had accepted these recommendations.

21          Yet the financial end of the company denied. In fact,  
22          Premera's position was that they had already had a rate for a  
23          total hip at the hospitals. And the type of implant that  
24          Sacred Heart chose to provide was solely between the hospital  
25          and the physician, essentially saying, "If you want to put

1 diamonds in, that's your choice. We have a contract for a  
2 hip, and we will pay that rate."

3 Eventually because of my persistent lobbying and writing  
4 letters and going to the bottom line -- which is why should a  
5 decision which makes medical, financial, and business sense  
6 not be forthcoming? -- I did -- I am happy to say -- win this  
7 particular battle personally and was granted this and am  
8 looking forward to having this done.

9 But I look to the future and look at the provocative  
10 question: What does this say about insurance companies when  
11 something that makes so much sense in so many ways is not  
12 considered? In a profit climate, what would be the answer?

13 Thank you very much for your time. And thank you for  
14 your...

15 COMMISSIONER KREIDLER: Thank you. Margaret  
16 Klubben?

17 MS. KLUBBEN: Margaret Klubben. You got it right  
18 the first time. I'm from Eve. And I'm on the executive  
19 board of Spokane Education Association. I'm on the board of  
20 directors of Washington Education Association, and I'm also a  
21 very active member of the Spokane Alliance. However, I was  
22 not planning to speak here tonight because --

23 COMMISSIONER KREIDLER: Excuse me. Did you have a  
24 chance to take the oath?

25 MS. KLUBBEN: Yes. I was here way back in the

1 beginning, and I did have my hand up just in case.

2 COMMISSIONER KREIDLER: Go ahead, please.

3 MS. KLUBBEN: The reason I had not intended to  
4 speak originally was because I know the members on the health  
5 committee, and they are very, very good and thorough. You  
6 know, they're wonderful people, and they have investigated  
7 this issue quite thoroughly.

8 But after hearing other people talking -- and I've been  
9 sitting in the very back of the room and watching a guy who  
10 had said he was on the board of directors for MSC, or he was  
11 the executive director at one point. He made his talk. The  
12 mayor-elect comes in, talks his talk, shakes hands with him,  
13 leaves and doesn't listen to a very important speech from a  
14 very good friend of mine, who really had something important  
15 to say. I was -- I got scared. Because I have a chronic  
16 illness that some day might -- well, it's incurable. Someday  
17 it may kill me. I have -- I have -- I could get sick  
18 tomorrow, or I could get sick 40 years from now. Okay? But  
19 I'm a walking time bomb. Okay?

20 We know that Kaiser Aluminium was a locally grown  
21 company. And MSC was a locally grown company. They both  
22 contributed much to this community. But Kaiser Aluminium was  
23 taken over by an out-of-state interest, and they really  
24 didn't give a hoot about this area. Bottom line, when they  
25 talk about bottom line, whether it's Premera, and the -- you

1 know, it doesn't matter. I am not against fair trade. I am  
2 against free trade. Free trade will hurt -- has hurt the  
3 people. Fair trade helps.

4 When we live in a society where the top executive pay in  
5 many companies is obscenely over 600 times their regular  
6 employees' pay, we've got a problem. I fear that with  
7 Premera going for-profit, because if the treatment for my  
8 chronic illness is deemed to affect their profits, will their  
9 commitment to the bottom line -- or cut me off and just let  
10 me die because I paid low maintenance then or no maintenance?

11 And I have been -- at one time we did subscribe to a  
12 no-care healthcare plan. I'll tell you, you don't want these  
13 HMOs. Okay? Premera has been a great healthcare plan.  
14 They're probably, really, don't want to have me in their  
15 group.

16 But -- and their premiums -- being on the board of  
17 directors of WES, when we've talked, you know, and heard the  
18 proposals for the increases, they're based on prior years  
19 usage. So yes, sometimes our premiums are going to go up. I  
20 don't understand why they feel the need to go for-profit.  
21 Because -- what I hear is out-of-state interests taking over  
22 and not giving a rip for Spokane or Eastern Washington or  
23 this whole area. Thank you.

24 COMMISSIONER KREIDLER: Thank you. Lastly, we have  
25 Kathy Barrick.

1 MS. BARRICK: I did not plan to speak tonight, so I  
2 need to be sworn in.

3 COMMISSIONER KREIDLER: You need to be sworn in?  
4 Good. If you'd raise your right-hand.

5  
6 KATHY BARRICK, having been first duly sworn,  
testified as follows:

7  
8 MS. BARRICK: My name is Kathy Barrick,  
9 B-a-r-r-i-c-k, and I live in Spokane. I am also a member of  
10 the Spokane Alliance. I am a retired person and a happen to  
11 be insured by another company, which is a for-profit company.

12 Information was recently sent to me explaining --  
13 attempting to explain why my premium will be once again  
14 increasing by nearly 100 percent. In that information there  
15 were graphs that showed that the profits for the insurance  
16 corporations are increasing at a much higher rate than actual  
17 healthcare costs are increasing. This was alarming to me  
18 because it indicated that the insurance companies are taking  
19 the opportunity to make a higher rate of profit out of the  
20 equation. For that reason I am concerned about another  
21 not-for-profit insurance being granted the opportunity to be  
22 joining the profit side of the house.

23 One of the key -- the cornerstone of the free-market  
24 system is competition. And it seems to me that, as consumers  
25 and certainly the providers, as we heard tonight, do not have

1 the opportunity to make a lot of choices as far as what is --  
2 what they can choose to purchase in the way of healthcare.  
3 So that the balance of competition that is provided to the  
4 free market system isn't really available in the current  
5 situation. And so I believe that that also skews these --  
6 toward the side -- in advantage of the company that is  
7 for-profit. Thank you very much.

8 COMMISSIONER KREIDLER: Thank you very much.

9 I want to thank everybody who testified. By my count, I  
10 believe it's 32 individuals who testified.

11 This does conclude our first adjudicative meeting that  
12 we're holding around the state. We have three more. Later  
13 this week we'll be in Yakima, next week we'll be in Seattle,  
14 and the week following that we're going to be in Bellingham  
15 to repeat these meetings.

16 There's no community that I felt more important to be  
17 the first than Spokane because clearly they have very much of  
18 a big stake in the discussions about the Premera conversion  
19 because of the prominence of Premera in this particular  
20 region of the State of Washington. So I would like to  
21 express, again, my appreciation to the people of Spokane and  
22 Eastern Washington who came, participated, and offered their  
23 comments as a part of that hearing.

24 With that, the meeting is adjourned.

25 (Proceedings concluded at 8:21 p.m.)

C E R T I F I C A T E

I, SUE E. GARCIA, a duly authorized Court Reporter and Notary Public in and for the State of Washington, residing at Tacoma, do hereby certify:

That the foregoing proceedings were taken before me on the 2nd of December, 2003, and thereafter transcribed by me by means of computer-aided transcription, that the transcript is a full, true, and complete transcript of said proceedings;

That I am not a relative, employee, attorney, or counsel of any party to this action or relative or employee of any such attorney or counsel, and I am not financially interested in the said action or the outcome thereof;

IN WITNESS HEREOF, I have hereunto set my hand and affixed my official seal this December 9, 2003.

---

SUE E. GARCIA, CCR, RPR  
WA Lic. No. 2781